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Euro 2020

**VIRTUAL EVENT**

# Can Your Reputation Survive the 4th Industrial Revolution (4IR)?

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# Learning Objectives

After completing this session participants will be able to recognize when emerging technology, market pressures and the drive to create shareholder value begin to overwhelm the organization and adversely affect the organization's decision making.

After completing this session participants will be able to develop governance processes capable of detecting emerging issues that are likely to have a detrimental effect on organizational reputation.

After completing this session participants will be able to use the Risk Hurricane concept to isolate organizational traits that can make the organization vulnerable to emerging threats and risk associated with disruptive technology.

After completing this session participants will be able to identify governance gaps and organizational culture issues that can compromise the organization's reputation.

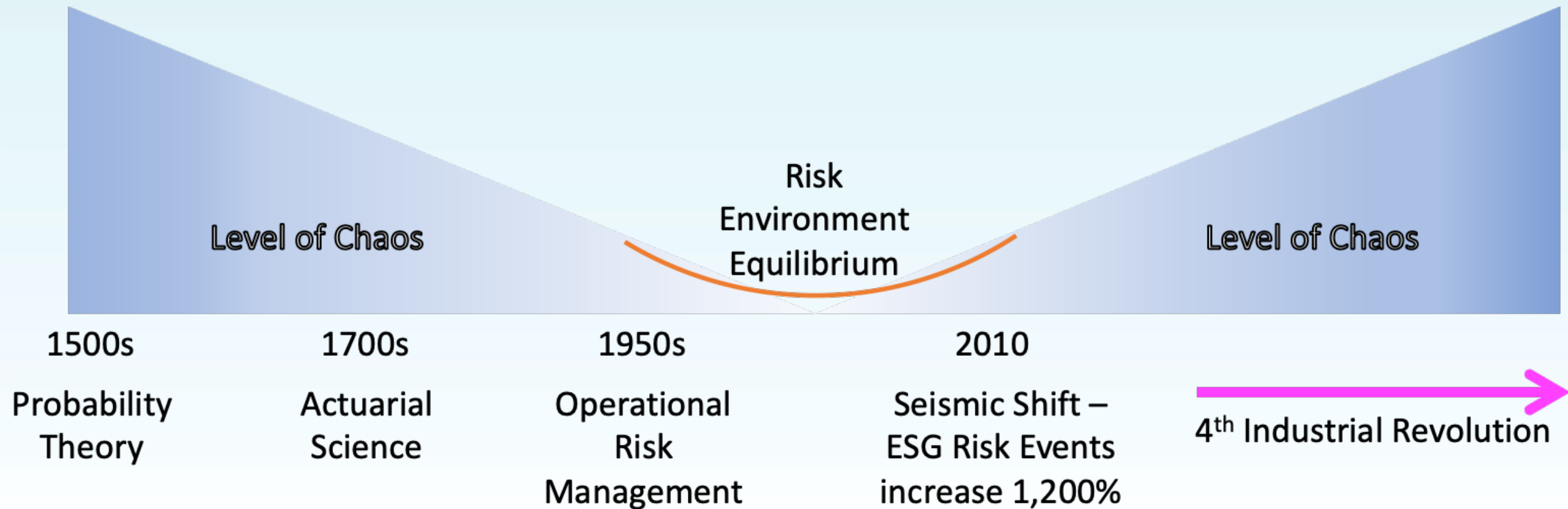
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## Poll: What is your greatest risk management concern?

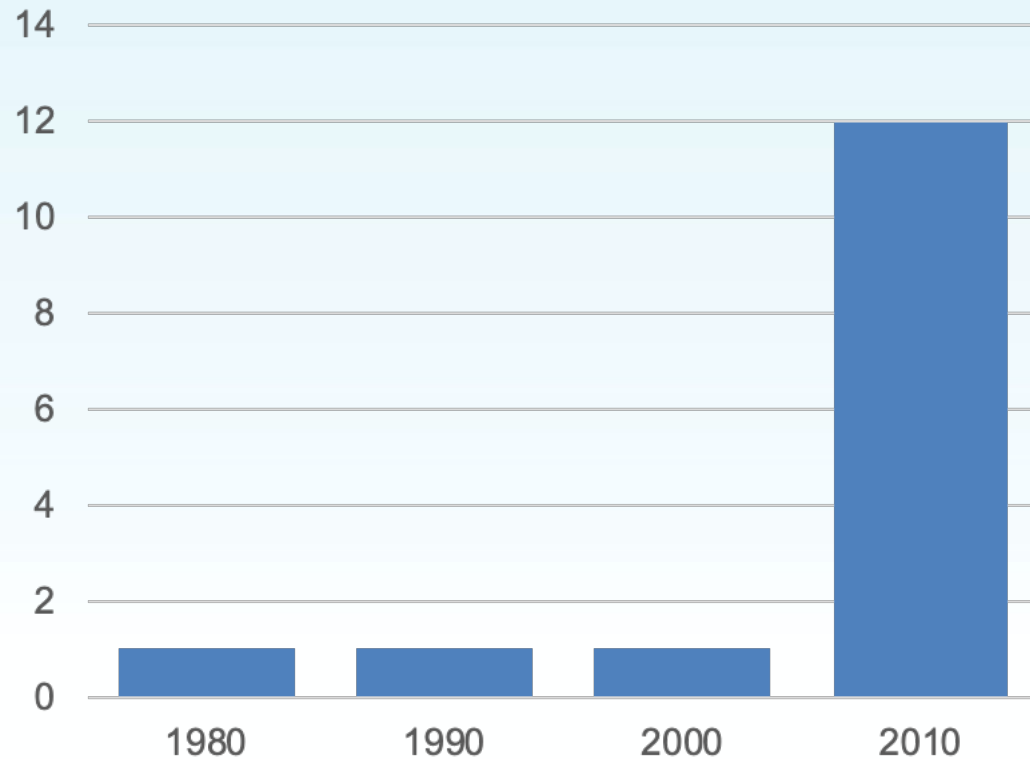
- Lack of Stakeholder support
- Cybersecurity
- Pandemic driven business changes
- Geopolitical upheaval
- Other

# Evolution of Risk Management

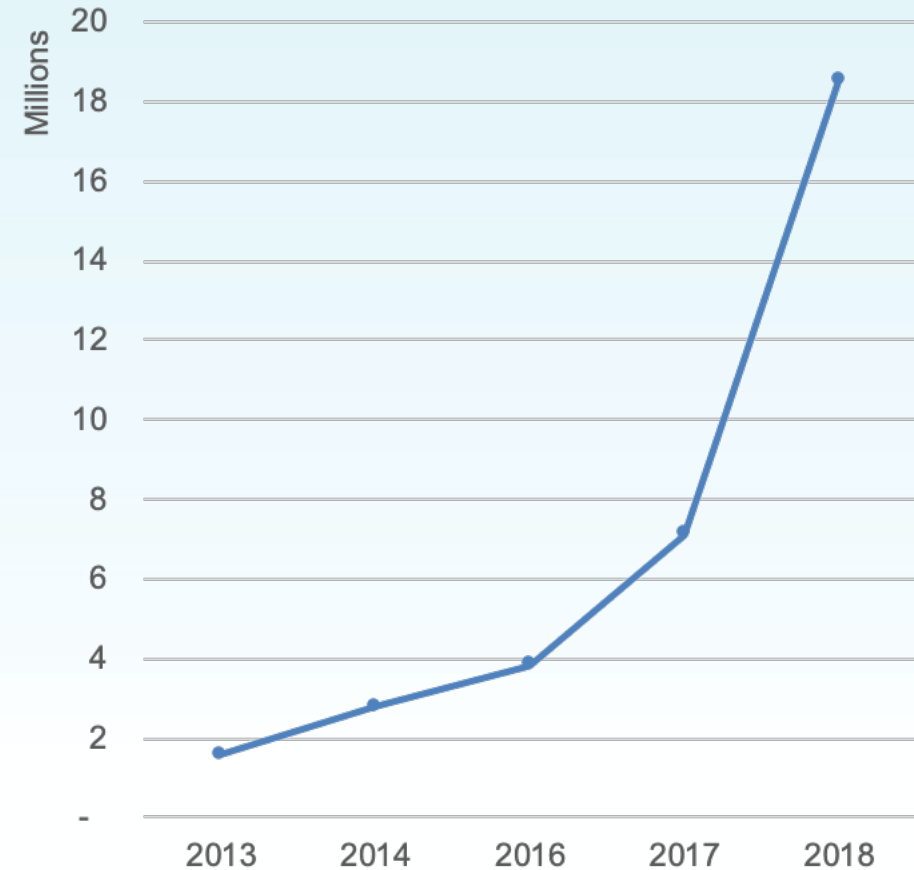


# Evolution of Risk Management

**Environmental, Social and Governance (ESG) Risk Events by Decade**



**Daily Record Loss / Theft**

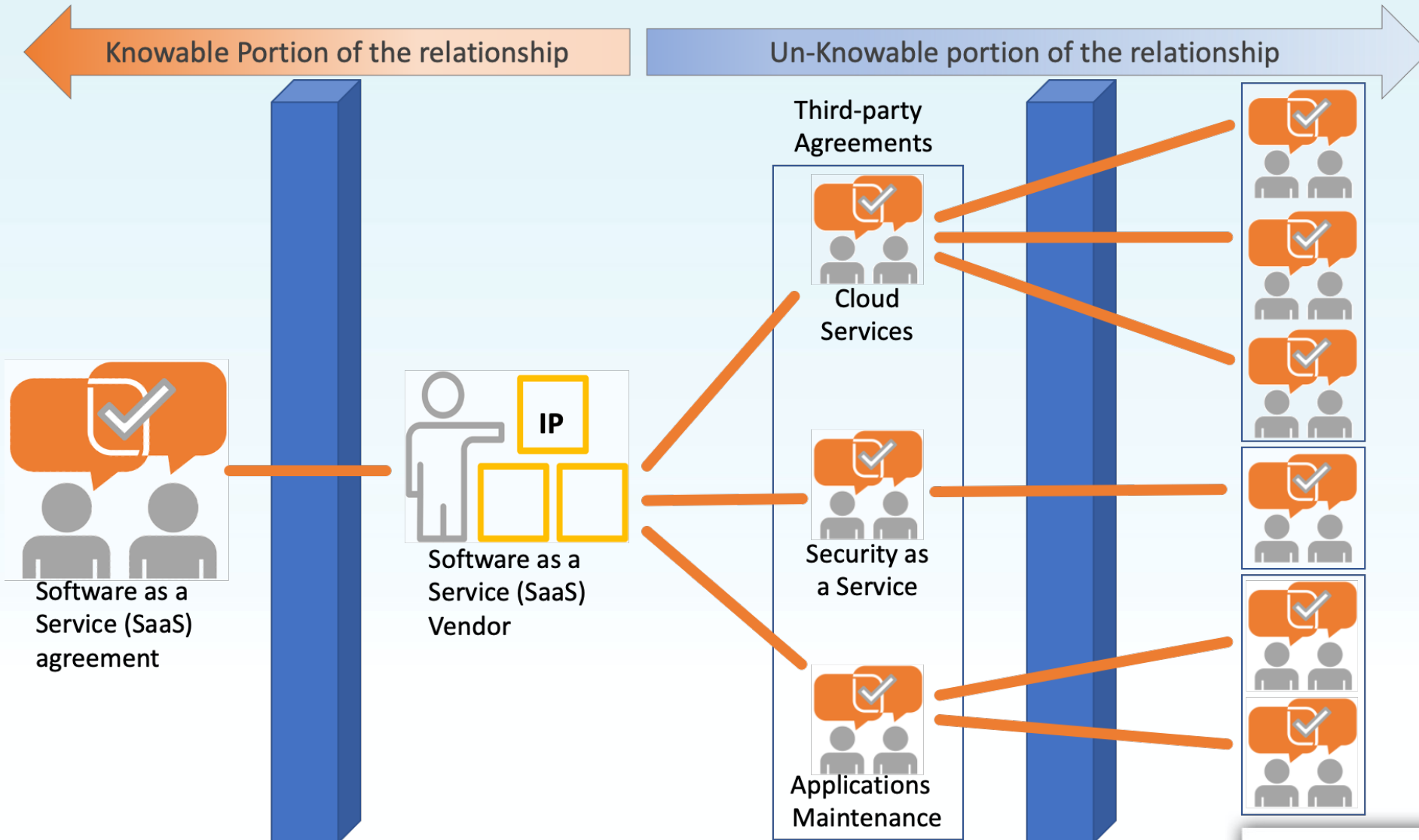


# Characteristics of 4IR

- Fast pace
- Increased complexity
- Decreased knowability
- Non-linear risk events
  - Within 2 hours WannaCry infected computers in Ukraine, France, Spain and the UK
  - Within 4 hours 2,000 organizations were infected
  - Within 24 hours 300,000 organizations in 150 countries were infected
- Highly sophisticated and well capitalized threat



# Characteristics of 4IR

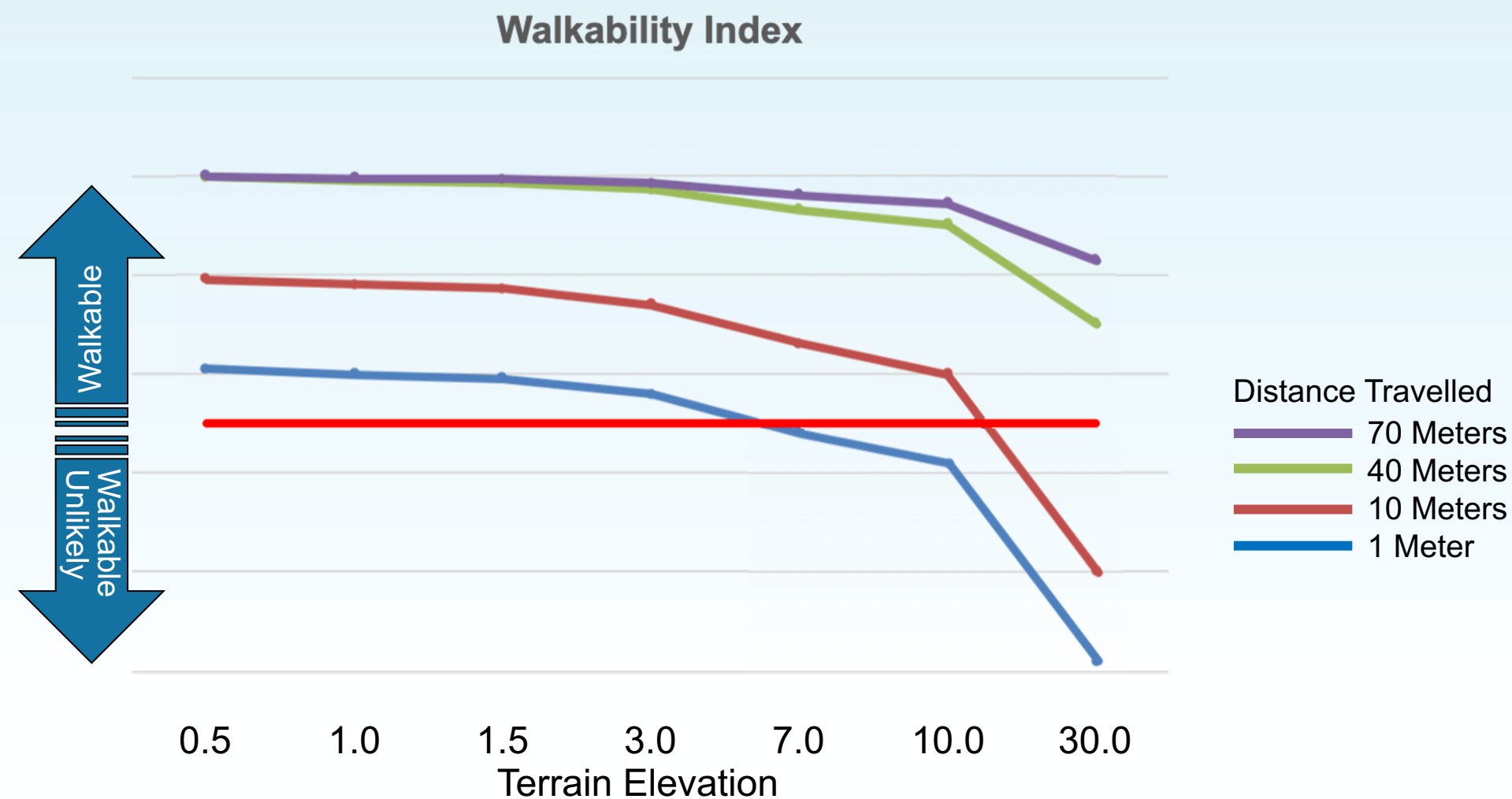


# Characteristics of 4IR

- 4IR requires a different mindset
- Embrace fuzzy logic instead of the classic actuarial approach

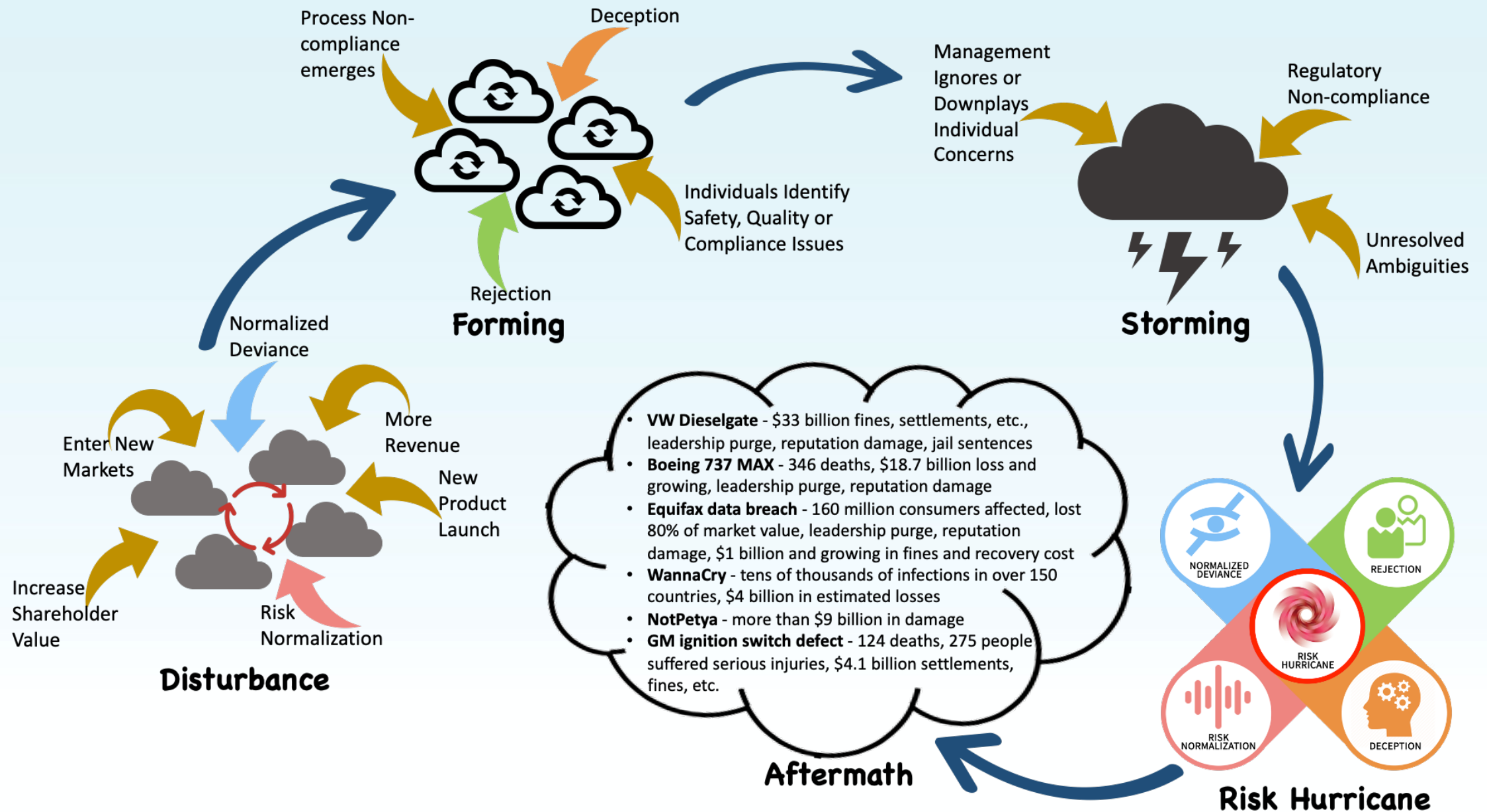


# Embrace Fuzzy Logic

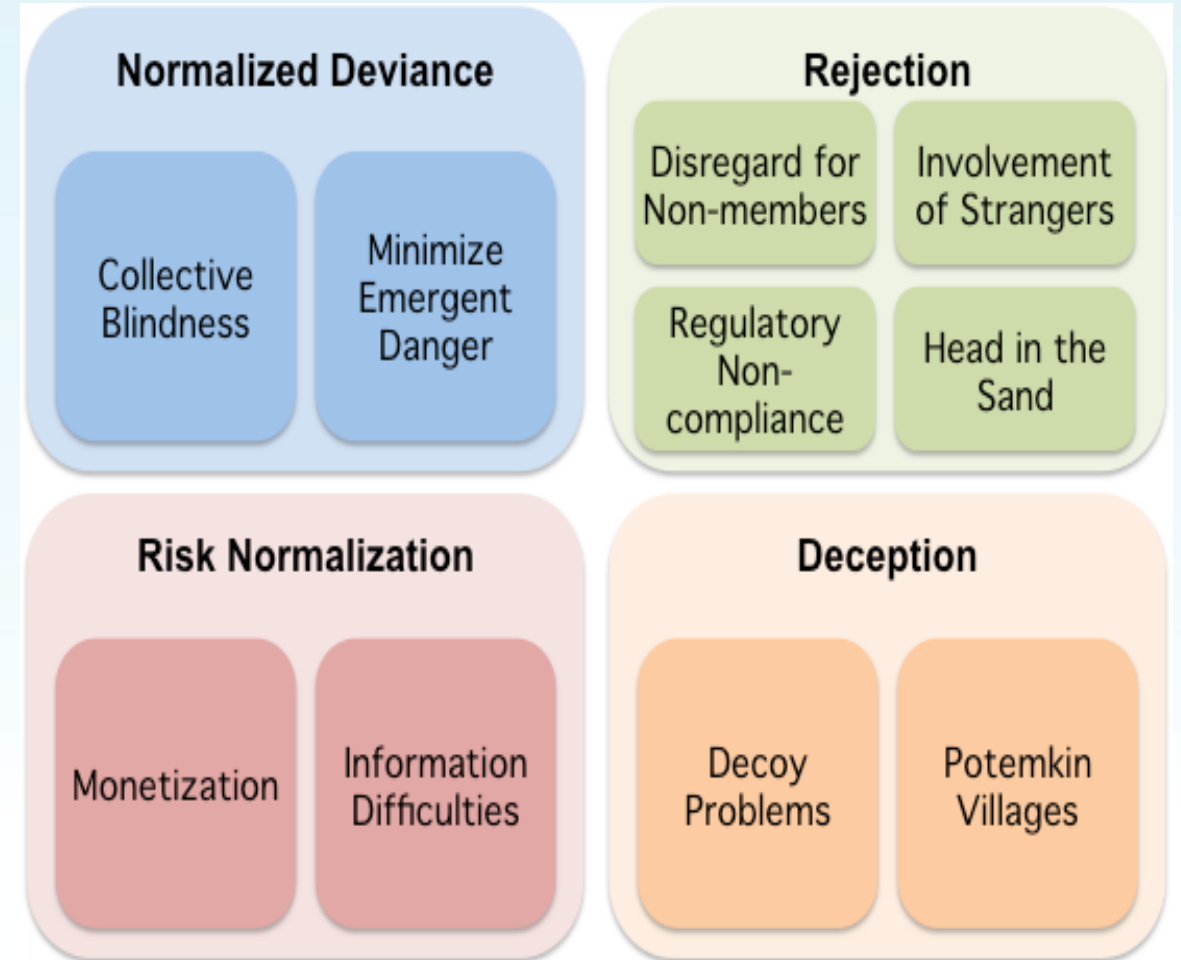
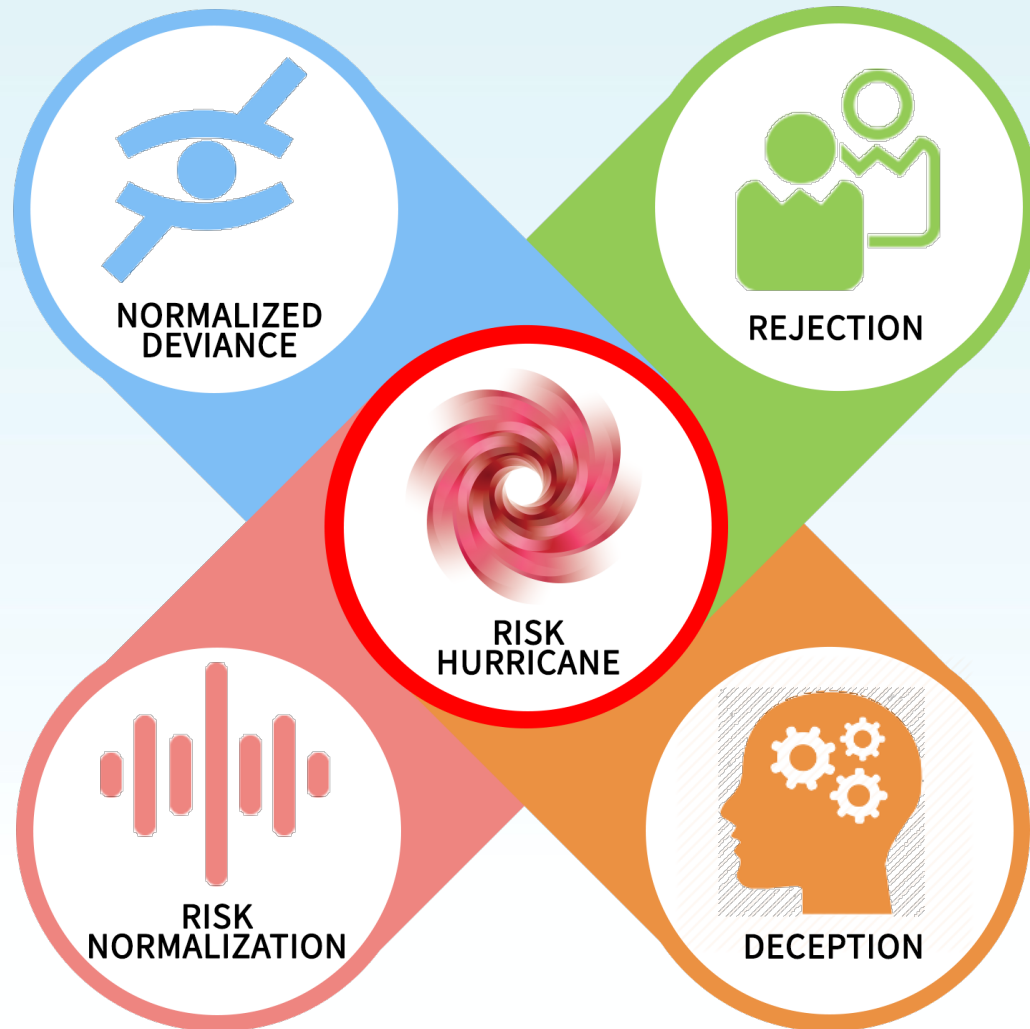


# Risk Hurricane

Stages of a Hurricane	Calm Before the Storm	Tropical Disturbance	Tropical Depression	Tropical Storm	Hurricane	Aftermath	Recovery
Carr's Anatomy of a Disaster	Equilibrium	Incubation Period		Precipitating Event	Onset of the Event	Rescue and Salvage	Renewed Equilibrium
Risk Hurricane	Calm	Disturbance	Forming	Storming	Risk Hurricane	Aftermath	Recovery



# Risk Hurricane




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# Poll: Is there a Disturbance, Forming or Storming in your organization today?

- Yes
- No
- I don't know

# What Happened at Boeing?

 A retired Boeing Engineer and former head of Boeing's Engineers Union says, "Safety and quality were taking a second seat to schedule and cost."






 Boeing was aware of a problem with the MCAS system nearly one year before the Lion Air accident.

 Within months of beginning 737 MAX deliveries, Boeing engineers identified a software problem with the 737 MAX software stating that the software did not meet requirements.

 The company became laser focused on the product launch of the Boeing 737MAX



## What Happened at General Motors?

-  Engineers notified senior management of an ignition switch ignition defect in 2001
-  In 2004, GM noticed the ignition defect yet again
-  In March 2005, GM Engineers presented corrective action proposal to Management
-  In May 2005, another GM engineer advised the company to take corrective action but once again management rejected the engineer's recommendations
-  Senior management chose to ignore the facts presented by engineers in favor of increased profits

The organization was laser focused on the Saturn Ion product launch



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## Poll: What risk category is the greatest concern in your organization?


- Reputation risk
- Safety risk
- Budget risk
- Operational risk
- Other

# What Happened at Equifax?

Equifax data breach of 2017 exposed personally identifiable information (PII) of 145 million American citizens, 100,000 Canadian citizens and 15.2 million UK citizens which is nearly half the population of the United States and one quarter the population of the UK.

 Senate investigators found that Equifax was aware of significant cybersecurity deficiencies as early as 2015 but relied on an “honor system” to patch vulnerabilities

 Equifax’s own internal audit findings in 2015 painted a bleak cybersecurity picture

 In 2016 and 2017 an investing research company rated Equifax’s cyber security efforts for both years the lowest score possible, zero on a scale of 0 to 10

# What Happened at Equifax?

In the first quarter of 2019, they announced a \$690 million charge related to settling ongoing class action lawsuits, investigations, and potential federal and state regulatory penalties

Medallia, a market leader in Experience Management, surveyed more than 8,000 consumers in 2019 about brand perception and found that 64% avoided a brand because of a bad experience within the last year.

The key point here is that reputation damage happens quickly and has a lasting impact.

# What Happened at Equifax?

In the first quarter of 2019, the company announced that it had agreed to settling ongoing class action lawsuits, in addition to regulatory penalties.

Medallia, a market research company, reported that more than 8,000 consumers in 2019 avoided the brand because of a bad experience.

**“It takes 20 years to build a reputation and five minutes to ruin it.**

**If you think about that, you will do things differently.”**

**-- Warren Buffet**

The key point here is that reputation damage happens quickly and has a lasting impact.

# Risk Event Aftermath

Disaster	Incubation Period	Aftermath	Recovery
GM Ignition switch	14 years	<ul style="list-style-type: none"> <li>124 deaths</li> <li>275 people seriously injured</li> <li>\$4.1 billion settlements, fines</li> </ul>	5 years, still ongoing
VW Dieselgate	9 years	<ul style="list-style-type: none"> <li>\$33 billion fines, settlements</li> <li>leadership purge</li> <li>reputation damage</li> <li>jail sentences</li> </ul>	2 years, still ongoing
Equifax	3 years	<ul style="list-style-type: none"> <li>160 million consumers affected</li> <li>lost 80% of market value</li> <li>leadership purge</li> <li>reputation damage</li> <li>\$1 billion and growing in fines &amp; recovery cost</li> </ul>	2 years, still ongoing
WannaCry	3 months	<ul style="list-style-type: none"> <li>tens of thousands of infections in over 150 countries</li> <li>\$4 billion in estimated losses</li> </ul>	3 years, still ongoing
Boeing 737MAX	5 years	<ul style="list-style-type: none"> <li>346 deaths</li> <li>\$18.7 billion loss and growing</li> <li>leadership purge, reputation damage</li> </ul>	1.5 years, still ongoing



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**Poll: Have you launched a new product or service within the past 6 months?**

- Yes
- No
- I don't know

# Risk Governance to Avoid 4IR Disasters

## The role of Governance:

- Offer a decision making mechanism that consists of policy makers, committees, and review boards
- The framework, principles, structure, processes and practices to set direction and monitor compliance
- Assure performance is aligned with the overall purpose and objectives of the Enterprise



# Risk Governance to Avoid 4IR Disasters

## The Board

### C-Suite

#### Decision Making Framework

Organizational Goals and Objectives

##### Review Boards

- Risk Review Board (RRB)
- Architecture Review Board (ARB)
- Change Control Board (CCB)

Executive Steering Committee (ESC)

##### Risk Policy

- Risk Appetite
- Risk Tolerance

Risk Profile

Advisory Groups

### Head of Risk

#### Assurance Framework

- Key Risk Indicators (KRI)
- Culture Assessments
- Risk Hurricane Status
- Independent Verification and Validation (IV&V)

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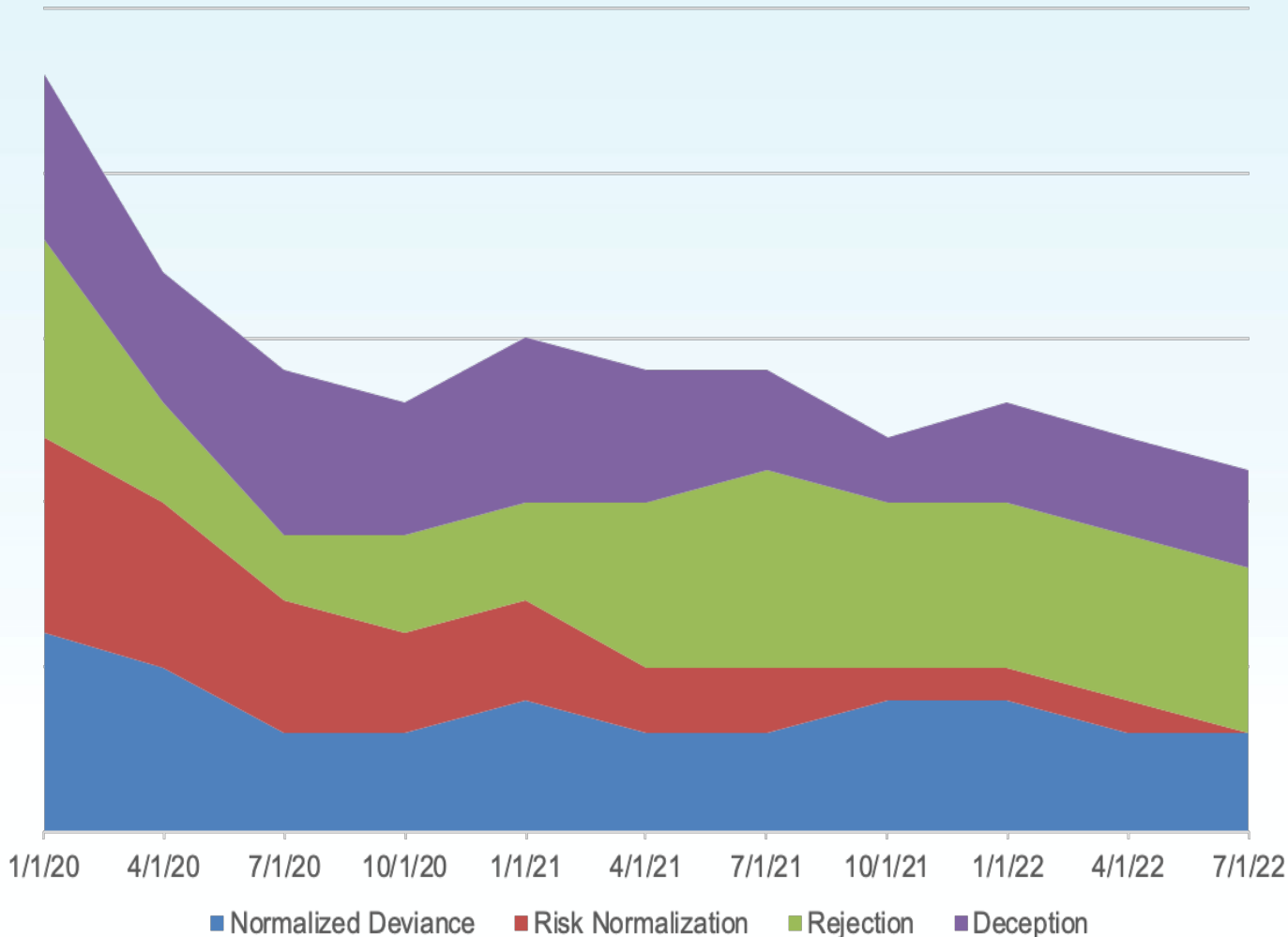
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# Poll: Does your organization audit the organizational culture?

- Yes
- No
- I don't know

# Risk Governance to Avoid 4IR Disasters

Risk Hurricane Trend



## Normalized Deviance

- Problems are known to exist but organizational culture suppresses action
- Individuals recognize vulnerabilities but don't understand the magnitude of the impact, so impact is trivialized

## Risk Normalization

- Monetize all risk
- Risk is genericized leaving unresolved ambiguities

## Rejection

- Insufficient or inadequate training
- “not invented here” syndrome
- Regulatory non-compliance
- Head in the sand

## Deception

- Ill-structure problem
- Smokescreen intended to focus attention elsewhere
- Potemkin Village

# How to Avoid 4IR Disasters

Audit organizational culture

Head of Risk reports directly to The Board

Define a separate governance model for product launches

Look beyond the next quarterly report

Actively seek out symptoms or indicators of a Risk Hurricane

# Product Launch Governance

Prioritize safety and reputation risk

Incentivize Management to aggressively manage safety and reputation risk

Consider 3rd party culture assessments

Utilize Independent Verification and Validation (IV&V)

- IV&V Review Board (IRB)

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**Poll: What is the greatest threat your organization will face in the next 5 years.**

- **Cyberattack**
- **Geopolitical instability**
- **Risk hurricane**
- **Depression / recession**
- **Environmental change**

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# Q&A



# Thank you!

Don't forget to fill out the session survey  
after this and every session!